ESO 1222

STATUS OF THE 1985 FARM BILL

A speech presented at the University of Missouri-Columbia.

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November 14, 1985

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This paper was prepared while Professor Zulauf was on leave with Senator John Glenn's Washington, D.C. office. The author thanks Kathy Connolly and David Dyer for their patient assistance in understanding the farm bill process and the 1985 Farm Bill.

Since the 1985 Farm Bill is not yet law, it is not possible to discuss specific provisions. However, both the House and Senate have passed their versions of the Farm Bill. It is possible to examine these two Bills for broad areas of agreement and to discuss their potential implications for U.S. agriculture. For brevity, my observations are confined to four areas of agreement: (1) conservation programs, (2) export enhancement programs, (3) "self-help" programs, and (4) loan rates/target prices.

Before discussing these areas, I will address a question asked by many farmers and others: Why has the Bill taken so long? The reasons are helpful in understanding why the House and Senate farm bills are drafted as they are.

Why the Farm Bill Has Taken so Long

Reasons for the delay are many, but three stand out: (1) continuing deterioration in the farm credit situation, (2) failure of the Reagan Administration to present a viable farm bill, and (3) budget constraints. A brief discussion of each reason follows.

Farm Credit Crisis

Although some observers had warned of the financial problems facing agriculture, the farm credit crisis did not become part of the national agenda until Senator Melcher of Montana held hearings in Washington, D.C. in February 1985. A subsequent filibuster over the nomination of Edwin Meese to be Attorney General paved the way for the Senate and House to pass a farm credit assistance package aimed at assuring farmers credit for planting.

President Reagan vetoed the credit relief bill, but farm credit was on the national agenda. Congress could not ignore the interrelationship between the farm bill and the credit crisis. Importantly, the farm bill assumed not only its traditional price and income support role but also a credit relief role. Congress had to consider what impact reducing government support would have on the credit situation.

Preoccupation of Congress with the farm credit crisis during February caused the Senate and House Agricultural Committees to postpone hearings on the farm bill by at least one month. From the very beginning, work on the farm bill started late.

Administration's Farm Bill

The traditional start to markup (i.e., writing) the farm bill is the Secretary of Agriculture's testimony before Congress on the Administration's farm bill. This year's traditional start was in most respects without meaning. The Administration's farm bill, "The Agricultural Adjustment Act of 1985," was a radical program that essentially moved agriculture to a free market over a six year period. Most farm groups and farm state legislators labeled the program reckless and irresponsible. It went too far, too fast in their eyes, and would increase the financial difficulty facing farmers.

Whatever the merits of the Administration's position, it was "dead on departure" as far as political realities were concerned. The Administration undermined much of its influence over the farm bill by proposing and maintaining such an extreme position. It provided little initial foundation for marking-up a farm bill. Both the Senate and House Agricultural Committees chose as their markup vehicles the bills submitted by their respective chairmen, Senator Helms and Representative de la Garza. The result was further delay in writing the farm bill.

It should be noted the much maligned "Agricultural Adjustment Act of 1985" proposed lowering loan rates and setting them through a moving average of market prices. Both proposals will be in the final farm bill.

Budget Constraints

The federal deficit of around $200 billion annually has surfaced as a major national agenda item. In 1985, Congress took a significant step to at least control further increases in the deficit. The "Budget Resolution for Fiscal Year 1986" called for cuts of $55 billion in federal spending. While most experts believe the actual cuts will be $35-$40 billion, the fact is Congress got serious about cutting federal spending to balance the deficit.

At present, a Congressional conference committee is considering a far more comprehensive budget reduction package. The so-called "Gramm-Rudman" approach will automatically balance the budget by 1991 through across the board cuts in most federal programs, excluding antipoverty and social security programs. Passage of "Gramm-Rudman" could force reductions in farm price and income supports no matter what the provisions of the 1985 farm bill.

Farm programs no longer enjoy an open check book. The "Budget Resolution" allocated about $35 billion over the 1986-88 fiscal years for farm income and price support programs. This figure amounts to an average annual expenditure in excess of 40 percent of average annual net farm income over the last three years. However, the $35 billion represents a cut of $6-8 billion during fiscal 1986-88 in anticipated outlays given continuation of current programs Thus, it represents a significant constraint on farm expenditures.

Budget constraints have caused substantial disagreement over how farm programs should operate in an era of tightening fiscal control and how the projected costs of the 1985 farm bill should be contained. These points of debate, along with the farm credit crisis and the Administration's farm bill stance, substantially slowed progress of the farm bill through Congress.

Selected Common Themes in the House and Senate Farm Bills

Strong Conservation Programs

A common feature of the House and Senate farm bills is a strong commitment to soil conservation. Both bills contain "sodbuster" and "swampbuster" provisions. These provisions deny farm program benefits to farmers who "break-out" (plant crops on) newly cultivated lands designated as highly erodible or wetlands. Program benefits are denied for all crops produced, not just those produced on the broken-out erodible lands or wetlands.

The bills also require farmers to apply accepted conservation practices on already cultivated land designated as erodible or risk losing farm program benefits. The Senate bill requires approved practices to be in place by 1988 while the House bill sets 1995 as the compliance date.

Lastly, the two bills contain a long term conservation reserve for fragile land already in crop production. The reserve will be at least 25 million acres. Farmers will bid for a per acre payment in return for removing the land from production for at least seven years. Payment will most likely be in cash but could be in commodities according to the House bill for five million acres. The Secretary of Agriculture will also provide aid for up to 50 percent of the cost of installing approved cover crops or conservation practices.

Public support for strong conservation measures have increased since the erosion impact of "fence-row-to-fence-row" planting was felt in the late 1970s. Their inclusion in the 1985 Farm Bill primarily represents the efforts of conservation groups such as the American Farmland Trust, Audubon Society, and Sierra Club. Although many farm groups climbed on board the conservation freight train in 1985, they were basically minor players in what will probably be the most novel programs in the farm bill.

Taken as a group, the conservation provisions represent a return to the philosophy of the farm programs of the 1930s. Farmers as a group are expected to practice good soil stewardship in return for federal farm program benefits. The conservation provisions also illustrate that new thrusts in farm (any) legislation normally have an incubation period of five to ten years before the national agenda allows commitment to the new legislative thrusts.

Strong Export Enhancement Programs

Both the Senate and House farm bills contain a strong commitment to export enhancement. Both reauthorize the Food for Peace program (P.L. 480) and increase its size. Both reauthorize the short term export credit guarantee program and reauthorize and broaden the intermediate term (three to ten year) export credit program. Both bills also direct the Secretary of Agriculture to carry out an export payment-in-kind program and to use commodity export assistance to counter subsidies offered by foreign competitors.

The strong export market development programs reflect a consensus among Congressional and Administration leaders that export enhancement programs offer a substantial method to boost demand, thereby reducing burdensome surpluses and increasing net farm income. The aggressive stance also reflects growing Congressional concern over the in-roads foreign producers have made into traditional American markets for farm as well as industrial and other commodities. As far as export enhancement programs are concerned, agriculture has benefited from the very broad national concern over the American trade imbalance.

The export programs in the farm bill will result in an increase in the proportion of farm exports shipped under some form of federal assistance. In fiscal year 1984, 15 percent of agricultural exports were shipped under either P.L. 480 or Commodity Credit Corporation credit programs. It is highly possible this proportion could rise to one-quarter or more of U.S. exports over the next three years.

Self-Help Programs

During the last quarter century, an increasing number of producer funded checkoffs have been established for different agricultural commodities at the national or state level. These checkoffs fund research and market promotion efforts. The 1985 Farm Bill represents a major addition to this legacy. It contains provisions concerning national checkoffs for beef and pork. Furthermore, responding to suggestions from the major beef and pork commodity organizations, the producer referendum to certify the checkoff will be delayed until at least one year after the checkoff begins. The argument is that this delay gives producers a chance to judge the effectiveness of the checkoff.

These two referendums reinforce what this author believes is a growing trend among public officials and representatives to ask agriculture to help itself. Checkoffs are one aspect of self-help. Another is producer assessments (taxes) to help finance commodity price support programs. The no-net cost tobacco program and the recently completed dairy diversion program are examples. The House bill contains an extension of this approach by authorizing a producer tax to cover the cost of a whole herd dairy buyout program, another dairy diversion program, and the cost of purchasing surplus milk above 5 billion pounds.

The trend to ask agriculture to help itself can be traced in part to the increasing cost of government income and price support programs. It can also be traced to the fact that farmers are becoming fewer and larger. Furthermore, large farmers acquire the largest share of farm program benefits. Increasingly, questions are being asked such as do large farmers need federal help and, even if they do, should it be extended given their size? A producer self-help program is one answer to these questions: producers are taxed in proportion to the benefits they receive from federal programs.

Loan Rates and Target Prices

Both the Senate and House farm bills continue the current nonrecourse loan programs. For wheat, feed grains, cotton, and rice, loan rates will decline but no more than five percent per year. Eventually, the loan rate will be set at 75-85 percent of the five year moving average of market prices minus the high and low price. In addition, both bills permit the Secretary of Agriculture to further reduce the loan rates through either a marketing loan or "Findley" adjustment. The Findley adjustment allows the Secretary to reduce the loan rate if the Secretary determines lower loan rates are needed to maintain price competitiveness. Both bills give the Secretary discretionary authority to use the Findley adjustment. The Senate farm bill requires the Secretary to offer a marketing loan. Under this provision, commodity loans could be repaid at a rate lower than the nonrecourse loan rate. The House bill makes a marketing loan optional at the Secretary's discretion. Lastly, the House bill sets a $250,000 limitation on nonrecourse loans; none exists in the Senate bill. As an aside, the soybean loan rate will also decline but, given the substantial differences between the Senate and House farm bills, the soybean program will have to be worked out by the farm bill conference committee.

The Senate bill contains a one year continuation of 1985 target prices. For 1987 and later crops, target prices can drop by up to five percent a year. However, in 1987 the Secretary is required to make up any reduction in target prices with payment-in-kind of government-owned commodities, and in 1988 the Secretary must pay up to five percent of the target price with commodities, to the extent they are available. Thus, the Senate Bill effectively has a two year target price freeze.

The House bill has a two year target price freeze at 1985 levels. Up to a five percent annual reduction is permitted for 1988 and later crops, but only if the cost of production declines at least five percent from the previous year. Most experts agree this translates into a five year freeze (the House bill covers five crop years).

Both bills maintain the $50,000 limit on deficiency payments except the Senate bill eliminates the limit for cotton and rice. Excluded from the payment limitation are any payments that come from discretionary reduction in loan rates by the Secretary of Agriculture or payments under a marketing loan.

The net effect of likely loan rate and target price provisions in the farm bill are:

(1) loan rates will decline over the foreseeable future;

(2) given current surplus production and the inelastic short term demand for agricultural commodities, market prices will decline as loan rates decline;

(3) maximum possible deficiency payment per bushel or pound

of commodity will increase as loan rates decline and target prices remain frozen even if only for one year;

(4) the increasing maximum deficiency payment will increase budgetary exposure at least in the short term;

(5) increasing budget exposure will argue for either larger land set-asides or, if "Gramm-Rudman" passes, decreases in target prices beyond those specified in the farm bill.

The end result is that farm income will come under pressure from declining market prices, increasing land set asides, and potential cuts due to "Gramm-Rudman." This conclusion stems not so much from the specific form of the 1985 farm bill as from the current surplus production situation and increasing national concern over the budget deficit.

Summary and Conclusions

The 1985 Farm Bill will confirm the old adage that farm policy is evolutionary, not revolutionary. The basic mechanisms in the 1985 Farm Bill will be the same ones as in the 1981 Farm Bill. But, the 1985 Farm Bill has its novel features. The conservation programs represent a strong return to the idea that farmers as a group should practice good soil management in return for federal assistance. Furthermore, a major decision has been made: for better or worse, farm policy will be more market oriented. This is the same decision made in the 1950s and 1960s.

The bottom line is that the 1985 Farm Bill will provide producers experiencing financial stress a "window of opportunity" for at least one year, probably two, but not more than four to address their problems. National preoccupation with the budget deficit means the level of farm support will have to decline in the near future. With surplus production, that unfortunately translates into lower farm income.